



Liabilities and Solvency

Josh Shapiro, Deputy Executive Director, NCCMP and Our Moderator

Panelists:

Eugene Caccamise, Bricklayers and Allied Craftworkers, (USA)

Robert Blakely, Canadian Director, Building & Construction Trades Department, AFL-CIO
(Canada)

NAPF

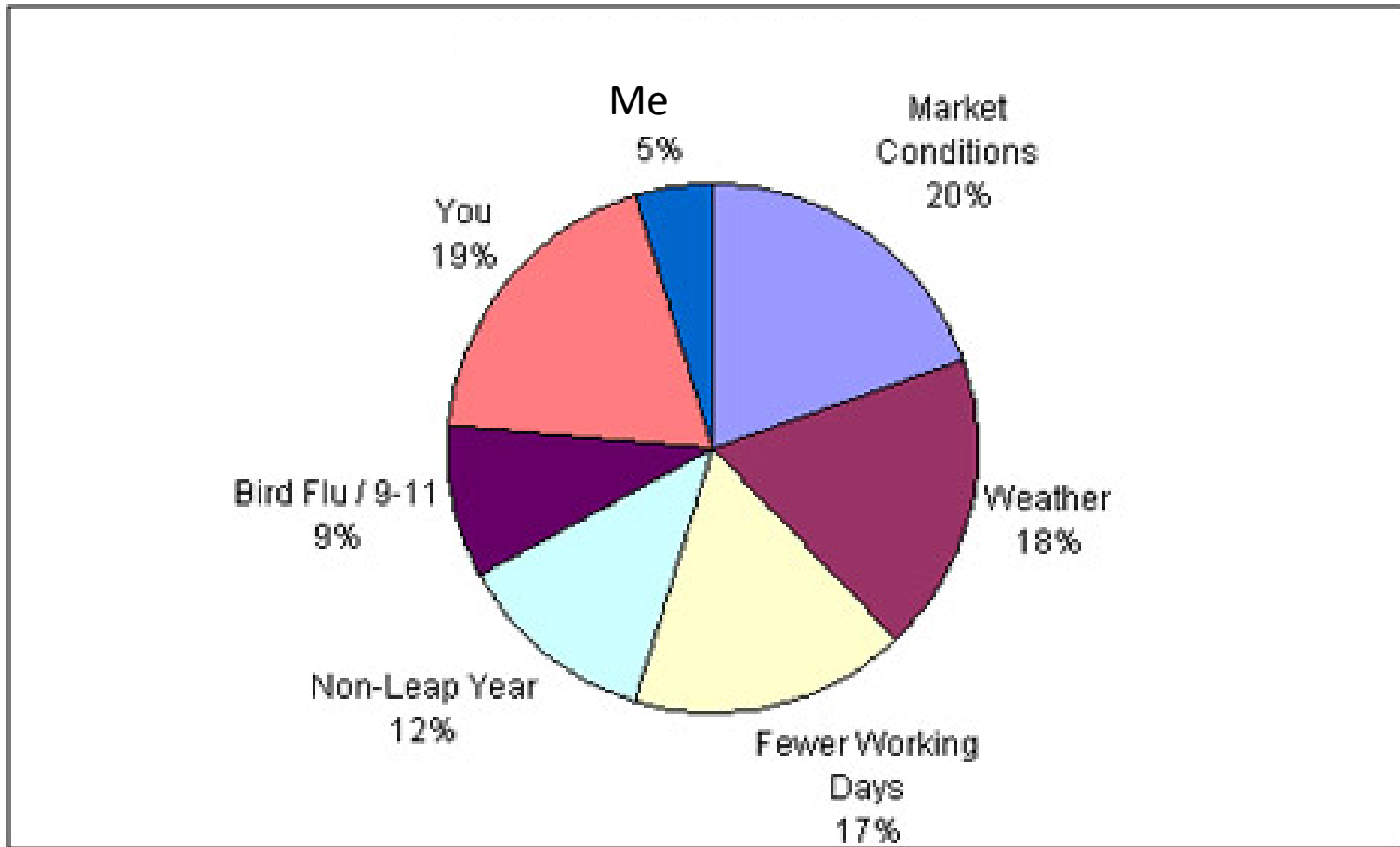
Gerard Riemen, Director, VB (The Netherlands)

Marc LeBlanc, Fund Administrator and GC for SMWNPF, NCCMP Steering Committee (USA)

Solvency Topic Intro

- Why are there solvency issues?
 - Who is being served, financial markets or participants?
- How to measure it?
- Transnational, trans-sector influences or contagion
- Real life issues

Causes of Solvency Challenges(not)



Ripped from Today's Headlines

- **For Europe's millions, it's apt that their home is known as the Old Continent.**
- **Accounting standard changes** and a regulatory push for better risk management have also encouraged the 5 trillion euro pension fund industry to adopt a liability-driven investment LDI.L approach aimed at matching assets to liabilities via a greater use of fixed income products.

Look to the North – Oh Canada

Solvency ratios at the 400 federally regulated DB pension plans in Canada are now at their highest point since June 2008, the Office of the Superintendent of Financial Institutions said...

In its May 2011 report, OSFI said the average solvency ratio of the plans it oversees has risen to an estimated 0.93:1 as of Dec. 31, 2010, up from 0.87:1 in June 2010 and 0.90:1 in December 2009.

The solvency ratio measures the ratio of assets to liabilities.

OSFI also estimated that 76% of the plans were underfunded on a solvency basis as of December, an improvement from the 79% that were in that situation six months earlier.

About 16% of the plans are believed to have had a solvency ratio of less than 0.80:1 at the end of December, OSFI said. That's also an improvement from the 22% estimated to be in that situation in June.

-By Monica Gutsch, Dow Jones Newswires; 416-306-2017; monica.gutsch@dowjones.com

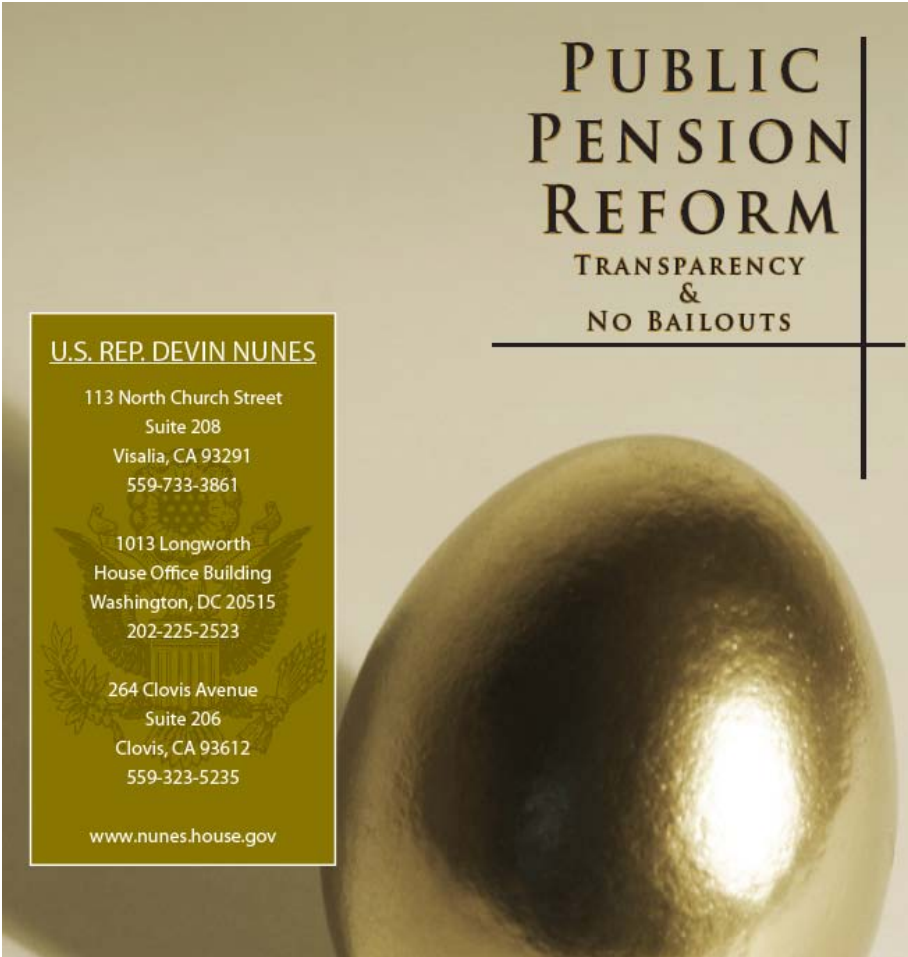
WHAT DOES THE PUBLIC EMPLOYEE PENSION TRANSPARENCY ACT DO?

Public disclosure of pension liabilities

State and local pension plans will report two sets of information to the Secretary of the Treasury which will be made available on the internet for public review.

The first set of numbers will detail current public pension liabilities based on existing accounting methods - methods largely determined by the pension plan itself. The methods and assumptions used in this first set of numbers will also be reported.

The second set of numbers will detail the current pension liabilities but will do so using uniform guidelines. Those guidelines will include more realistic discount rates, as well as controls to assure assets are counted using a reasonable estimate of fair market value.



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Global Challenges - The World of Acronyms and Ref. Nos.

- IAS 19 (IFRS)
 - Does it scrap the use of expected return on assets?
 - No more “corridors,” immediate recognition of gains and losses?
- FASB subtopic 715-80 (beyond FAS)
 - PPA Zone Status
 - Contributions for current period
 - Whether a surcharge has been imposed
 - CBA expiration date
- Canada could look south or across the Atlantic, but has its own acronyms too



- The poor user community
- Not withdrawal liability
- How to make it comparable?
- How to make is easier?
- Quantitative or Qualitative

IORP

- Is IORP relevant to funded pension systems
- Is Solvency II framework an appropriate benchmark?
- What do plans suggest?

JSPP

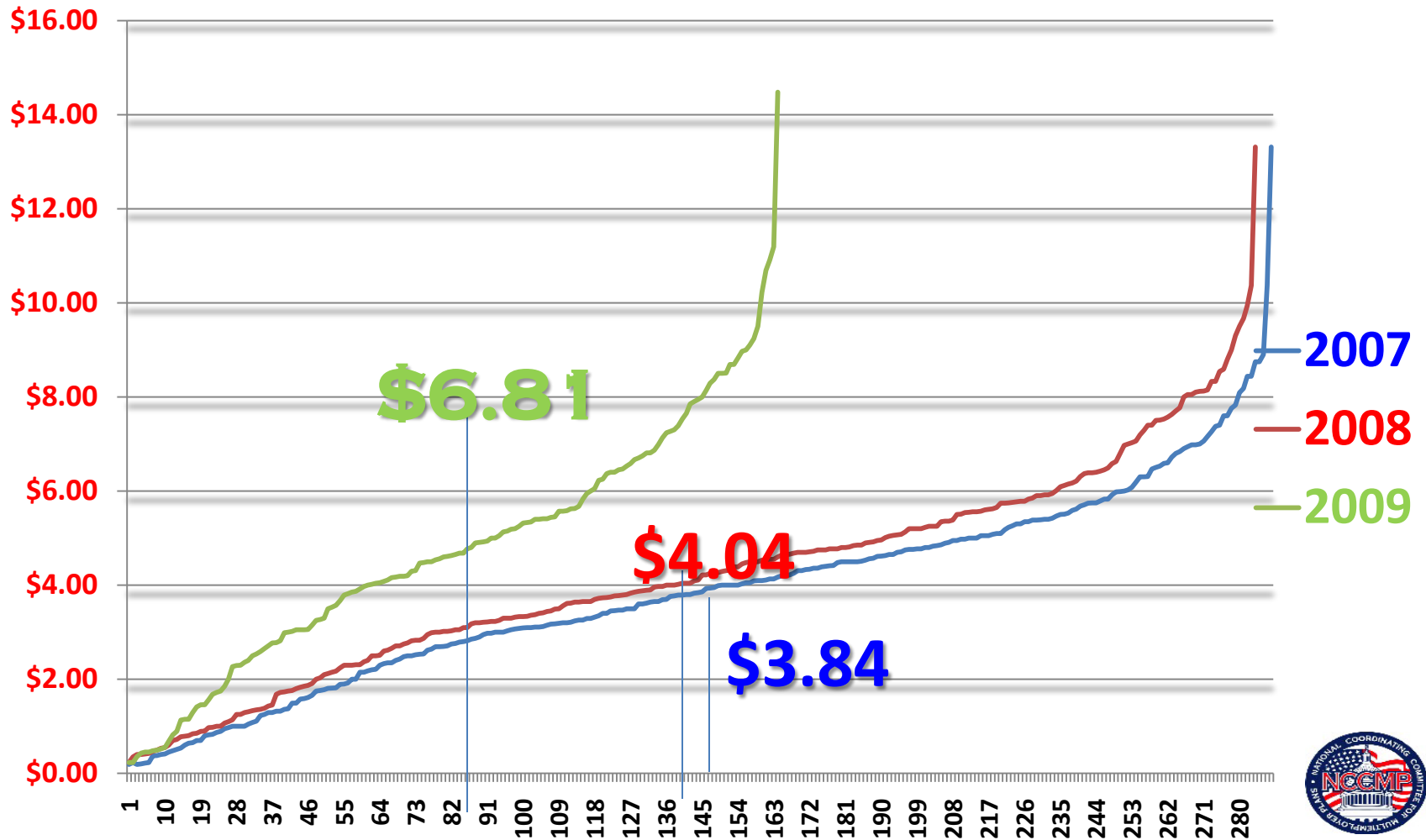
- Not quite the same idea, but it is an acronym
- Annual valuation now required, unless .90% funded”
- Where Ontario goes so goes the whole of Canada?

“We are lucky that many pension experts share our concern about imposing short-term solvency requirements, such as those for insurers, to pension funds - which will prevent them from taking a long term view when investing in members' **scheme** contributions. Such a long term perspective is essential if we want to deliver higher returns or to keep contributions to an acceptable level.” (emphasis added)

Secretary-General of European Federation for Retirement Provision Chris Verhaegen considers the way forward ...

MEANWHILE, BACK IN THE US

CHANGES IN MEDIAN HOURLY CONTRIBUTION RATES 2007 - 2009



NUMBER OF PLANS RESPONDING



PRESERVATION OF ACCESS TO MEDICARE AND PENSION RELIEF ACT

- **30-YEAR AMORTIZATION OF 2008 /09
INVESTMENT LOSSES**
- **10-YEAR SMOOTHING OF 2008/09
INVESTMENT LOSSES**
- **TEMPORARY EXPANSION OF ASSET
SMOOTHING CORRIDOR TO 130%**

SOLVENCY TEST –

- PLAN MUST BE PROJECTED TO HAVE SUFFICIENT ASSETS TO PAY ALL EXPECTED BENEFITS & OTHER EXPENDITURES OVER 30 YEARS**
- MUST USE SAME ASSUMPTIONS AND PLAN OF BENEFITS IN EFFECT AT TIME OF CERTIFICATION**



BENEFIT RESTRICTIONS

- PLANS THAT ELECT ANY OF THE RELIEF PROVISIONS CANNOT ADOPT ANY BENEFIT IMPROVEMENTS W/IN 2 YEARS OF A PLAN YEAR TO WHICH THE RELIEF PROVISIONS APPLY**
- EACH PORTION OF LOSS RECOGNIZED BEGINS A NEW 2 YEAR PERIOD**
- EFFECTIVE RESTRICTION PERIOD TO OBTAIN FULL RELIEF - 12 YEARS**



Rabobank, Overfunded, Revamps its Investments to Focus on Capital Preservation

YOU'VE GOT YOUR TROUBLES, I'VE GOT MINE...

